AARP Electric Affordability Program Proposal

This document is intended to serve as a broad outline of program design principles rather than a detailed program manual. Our hope is that the State Legislature will adopt legislation that sets forth the broad parameters as described here, and that more detailed program design guidance will then come through an Order issued by the Public Service Board.

Policy Objectives

Reliable electricity service is a necessity of life. Without electricity, residents cannot participate effectively in present-day society or be secure from threats to health and safety. All Vermont residents, including those with low incomes, should have access to reliable and secure sources of electricity. To help ensure energy security for low-income residents, Vermont needs a sustainable electricity affordability program that

- serves a large proportion of the state's population at or below 150% of the federal poverty level,
- lowers program participants' electricity burdens[1] to an affordable level,
- targets benefits progressively,
- promotes regular, timely payment of electric bills by program participants,
- comprehensively addresses payment problems associated with program participants' current and past-due bills,
- is funded through a mechanism that is predictable while providing sufficient resources to meet policy objectives over an extended timeframe,
- is paid for by all classes of electricity customers, and
- is administered efficiently and effectively.

Eligibility Guidelines, Participation and Enrollment

Vermont's electricity affordability program should be available to residential electric utility customers with income at or below 150% of the federal poverty level ("FPL"). All households receiving benefits through the federal Low Income Home Energy Assistance Program ("LIHEAP") should be automatically enrolled in the electric affordability program. In the event that the electricity affordability program's participation level does not exceed any enrollment ceiling that may be established, consenting households receiving benefits from other means-tested benefit programs (e.g., Food Stamps, Medicaid) should also be automatically enrolled in the electricity affordability program.

[1] "Electricity burden" refers to that proportion of household income that is devoted to paying for electricity service.

Program Benefits

Affordability program participants should receive benefits in the form of discounted electric rates or fixed credits on their electric bills. Program participants should be assigned to income tiers based on the ratio of household income to the federal poverty level. The goal of the program would be to lower the average electricity burden of participants in each discount tier to five percent of household income. Alternatively, income tiers could be developed separately for customers with electric heat and for those who use do not use electricity for primary heating purposes. In this case, the target electricity burden for non-heat customers should be set lower than that which would apply to electric heat customers. Grouping program participants into income tiers would satisfy one of the primary objectives of a percentage of income payment plan (PIPP): to target program benefits according to need by increasing benefit levels to the poorest households.

In order to promote efficient use of energy resources, monthly discounts may be capped at a predetermined consumption level or bill credits may be fixed. Benefit levels could be capped based on weather-normalized, average electricity consumption at the participant's residence, or among all Vermont households with similar end-use needs (i.e., general appliance use only, general appliances and hot water, or general appliances, hot water and heat). However, such mechanisms should be carefully designed so that they do not result in unintended threats to the health and safety.[2]

Arrearage Management

It should be assumed that many of the people applying for a new electricity affordability program will carry past-due balances. Effectively promoting regular bill payment entails ensuring that *total* payments are affordable. A program that is intended to promote regular, timely payments by participants through reduction of electricity burdens to an affordable level is rendered less effective by a requirement that participants pay an amount in addition to the affordable current bill. Simultaneous payment of pre-existing arrears and the discounted electric bill therefore runs counter to the policy objective of promoting regular, timely payments by program participants. Accordingly, we recommend that Vermont's electricity affordability program include a component that provides for the retirement of pre-program arrears.

There are two basic models of low-income utility arrearage management that have been implemented in states. One entails the gradual write-down of customer arrears over time after a series of timely payments on current bills. The other model entails the retirement of arrearage balances in full on a one-time basis. Consistent with the policy objective of administrative efficiency, we recommend that an arrearage management program component consist of a one-time retirement of pre-program arrears for program participants on or around the time that the electricity affordability program is first implemented. We recognize that care must be taken to design the arrearage management component in a way that does not provide customers with

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[2] It should be noted that some "high-use" electricity customers may have little control over the thermal characteristics and appliances that are used in their houses or apartments. Other high-use customers may require electricity-driven equipment for medical purposes. In such cases, it is important that program design features do not provide customers with an incentive to under-consume in a manner that could prove harmful to health.

incentive to "not pay" in anticipation of arrearage forgiveness. Closely managing the release and timing of information associated with arrearage retirement is required to mitigate prospective problems in this area.

Program Funding

Funding for an electric affordability program needs meet sufficiency and predictability standards. Program funding should be sufficient to provide meaningful energy burden reduction and energy security for electricity customers living below 150% of the federal poverty level. We propose a target electricity burden of 5% for program participants living below 150% of the federal poverty level. Funding levels will depend on the level of program participation and the target electricity burden. Reductions of program participants' "pre-program arrears" would require additional funding.

A sustainable electricity affordability program with set benefit levels and participation rates also requires funding that is predictable and reliable. The most predictable, reliable source of funding for a sustainable electricity affordability program would come from a non-bypassable charge on monthly electric bills to all classes of customers. A uniform volumetric charge or percentage of bill surcharge – approved prior to program implementation – would provide predictable program funding.

Legislative appropriation from the General Fund or through specific tax revenue sources could provide resources sufficient to meet an affordability program's policy objective, but may not be reliable in that they would require renewed Legislative approval each year. In addition, mechanisms such as a voluntary check-off on electric bills would not satisfy either the sufficiency or predictability funding standards.

Program funds secured through utility bill charges and other sources should be aggregated into a statewide fund managed by the State Treasurer's Office, and monitored by the Public Service Board.

Program Administration and Implementation

As indicated previously, consumer advocates support program design that fosters efficient streamlined administrative procedures. With limited program resources available, funds should be devoted to participant benefits rather than administrative costs to the greatest extent feasible. Minimizing administrative costs while delivering an effective electricity affordability program will require that numerous agencies, organizations and individuals work together cooperatively and efficiently. We recommend that whenever possible, administrative structures and procedures that apply to the state's LIHEAP be applied to the electric affordability program. Following is an outline of the roles that may be played by various entities in a prospective new program.

Public Service Board We recommend that the Board or its designee be responsible for design and fiscal management of the electric affordability program. The Board would also provide ongoing oversight of the program and make modifications to the program as necessary. In addition, we suggest that the Board convene a Low Income Working Group to provide input on matters of relevance to the new program specifically and low-income utility customers generally. The Low Income Working group should be comprised of a broad range of interested parties, including PSB staff, Department of Public Service staff, Agency of Human Services staff, Community Action Agencies, utility companies, and consumer advocates.

Agency of Human Services/Community Action Agencies The state's CAAs, in conjunction with the Agency of Human Services, would perform program intake and outreach functions. The state and local agencies would certify applicants' income using the same procedures that currently apply to LIHEAP. In addition, they would determine applicants' income tier, provide counseling and energy education functions, and ensure that electricity affordability applicants all apply for state and federal low-income energy efficiency program services. Qualifying applicants' address and electricity service account numbers would be forwarded electronically to the electric utility company serving the applicant.

Electric Utility Companies The electric companies would collect program-related charges from all customers, and deposit any amounts in addition to participant bill credits plus approved program administrative costs into the state treasury account. Companies would assign qualified customers to the appropriate discount tier or fixed credit payment and alter billing accordingly. Companies would also be responsible for regular reporting to the PSB of program activities and financial transactions. All program costs, including bill credits, approved startup and ongoing administrative expenses, and approved arrearage retirement amounts would be recoverable through withdrawal from the State Treasury fund.

Program Participants Affordability program applicants would provide documentation required for certification on an annual basis. In addition, program applicants would agree to apply for all appropriate energy efficiency services that may be available.